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Carol Ann Bischoff Executive Vice President and General Counsel cbischoff@comptel.org

March 31, 1999

By Hand

Ms. Magalie Roman Salas Secretary Federal Communications Commission The Portals 445 12th Street, S.W. Washington, D.C. 20554 MAR 3 1 1999

Re:

**Ex Parte Submission** 

GTE-Bell Atlantic Merger -- CC Docket No. 98-184

Dear Ms. Salas:

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The Competitive Telecommunications Association ("CompTel") hereby submits this opposition to the request of Bell Atlantic and GTE ("Requesting Parties") for the creation of a single LATA throughout Bell Atlantic's region to enable the merged Bell Atlantic/GTE to continue operating the Internet backbone and related services of GTE Internetworking ("Internetworking") in states where Bell Atlantic has not obtained Section 271 authority.<sup>1</sup>

The Commission should deny this request as yet another attempt by a Bell Operating Company ("BOC") to erase the procompetitive mandates of the Telecommunications Act of 1996 ("1996 Act"). The instant request is a transparent attempt to evade the limitations imposed by Section 271(b)(1) on the provision of interLATA services by the BOCs. The Commission should deny the request because it lacks authority to waive or forbear from applying the provisions of Section 271. Although the Commission has authority under Section 3(25) to approve certain limited LATA boundary modifications, such modifications must be consistent with the mandates of Section 271. The Commission has never granted the type of LATA relief here requested by Bell Atlantic and GTE. The Requesting Parties' assertions to the contrary notwithstanding, the Commission's previous LATA boundary modifications are entirely consistent with both Section 3(25) and Section 271.

Moreover, even if the Commission were authorized to grant the type of relief requested, Bell Atlantic and GTE have not established that the putative benefits of

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Report of Bell Atlantic and GTE On Long Distance Issues In Connection With Their Merger and Request For Limited Interim Relief, CC Docket No. 98-184 (filed Feb. 24, 1999) (hereinafter "Report").

granting the petition outweigh the harm to competition and consumer interests. The Requesting Parties use "public interest" language to mask what is in essence a selfish proposal -- they wish to have premature Section 271 relief for their own business convenience and profitability. Never once have they addressed the possibility of delaying consummation of the merger (assuming it is approved by the Commission at all) until Bell Atlantic obtains the necessary Section 271 approvals. If Bell Atlantic is correct in its belief that it will quickly obtain such approvals throughout its region (a confidence which CompTel does not share), then the costs of delaying the merger until such approvals are in hand should not be burdensome. On the other hand, if the Requesting Parties believe that Bell Atlantic may not win those approvals quickly or at all, then the Commission certainly should not buy into any scheme of awarding "interim" Section 271 relief to Bell Atlantic so that it may expand and consolidate its local exchange monopoly while defying the market-opening provisions of the 1996 Act.

Further, the Requesting Parties fail to address seriously the option of divesting GTE's Internetworking business as a means of removing this obstacle to consummating the merger prior to obtaining the necessary Section 271 approvals. Rather, they dismiss that issue with the cataclysmic speculation that GTE's Internet business -- and the entire future of Internet competition, no less -- could not survive the divestiture of GTE Internetworking. We submit that divestiture is far more likely to promote broadband competition than subdue it, particularly given GTE's reportedly dismal performance as an Internet service provider. Bell Atlantic and GTE have provided the Commission with no reason for believing that the merged Bell Atlantic/GTE is the only entity which can successfully operate GTE Internetworking on a going-forward basis.

Finally, this request must be denied because the Requesting Parties ask the Commission to make judgments which it cannot or should not make. It would be highly inappropriate for the Commission to predict whether or when Bell Atlantic will obtain Section 271 relief in any of its states. Bell Atlantic has yet to file even one Section 271 application, and the Commission has no record basis for making a predictive determination that such applications, if and when they are filed, will be granted in whole or in part based on the circumstances that exist at that time. The integrity of the Commission's Section 271 process would be undermined irreparably were it to grant this request for relief for the reasons proffered by the Requesting Parties. Similarly, Bell Atlantic and GTE ask the Commission to grant this relief based on a series of unproved,

The Requesting Parties' desire for a two-year grant of in-region interLATA authority, with the possibility of an indefinite extension thereafter, indicates that Bell Atlantic and GTE may be less confident than they appear about Bell Atlantic's prospects for region-wide Section 271 relief.

See "Rating the ISPs," Smart Money, April, 1999 at 96-97 (rating GTE.net "dead last" as an Internet service provider among companies surveyed).

interlocking suppositions about the impact of divestiture upon GTE's Internetworking business and the entire future of Internet competition. At all times the FCC's ability to make such intricate market and technical judgments is problematic, but never more so than here where the Requesting Parties have provided only a minimum amount of relevant information on which to base any such judgment. The Commission should refuse to play the type of guessing game proposed by the Requesting Parties, and reject the LATA boundary modification request.

## 1. The FCC Should Place the Request on Public Notice.

Both Sprint Communications Company and AT&T Corp. have filed motions asking the Commission to place the Bell Atlantic/GTE request on public notice. CompTel strongly supports those motions. Section 309 of the Communications Act requires public notice for "any substantial amendment," and this request plainly qualifies as such an amendment. Bell Atlantic and GTE did not request a LATA boundary modification in their application or otherwise indicate that such a modification would be necessary. Further, in all other cases where a BOC has petitioned for a LATA boundary modification, the Commission has placed the petition on public notice in order to allow comment from interested parties. It is ironic that the Requesting Parties believe the FCC can decide arguably the most significant LATA boundary modification request to date without placing it on public notice. Particularly, given the nature of the reasons given by the parties for granting this relief -- namely, Bell Atlantic's alleged compliance with the 1996 Act throughout its region and the putative impact of divesting GTE Internetworking on Internet competition -- wide-ranging public input obviously is critical.

Further, GTE and Bell Atlantic have only themselves to blame for this timing exigency. Had they requested this relief when they filed their application, or had Bell Atlantic complied earlier with its market-opening obligations under the 1996 Act so that the necessary Section 271 approvals already would be in place, this request would be unnecessary. In addition, given the significance and impact of this merger, the Commission should not take the risk that any decision it makes could be subject to reversal on appeal for a procedural error of this nature. The Commission should decline to put this request on public notice only if, as CompTel and others have demonstrated, it has decided to reject the Requesting Parties' application on its merits.

<sup>47</sup> U.S.C. § 309(b); see also 47 C.F.R. § 63.52(b).

See Motion for Public Notice of AT&T Corp., CC Docket. No. 98-184 (filed Mar. 16, 1999), at 4-7; Petition to Process Bell Atlantic-GTE Request for Relief as a Major Amendment to Application and for Issuance of Further Public Notice of Spring Communications Company L.P., CC Docket. No. 98-184 (filed Mar. 12, 1999), at 5-8.

## 2. The FCC Lacks the Statutory Authority to Grant the Requested Relief.

Section 271(b)(1) of the Communications Act prohibits Bell Atlantic from providing in-region interLATA services until: (1) Bell Atlantic fully implements the procompetitive, market-opening provisions of Section 271; and (2) the FCC approves its application to provide interLATA services. Section 271 is a cornerstone of the 1996 Act, and constitutes the principal statutory incentive for the Bell Companies to comply with Section 251(c) and otherwise open their local markets to competition. While the Commission may forbear from applying certain provisions of the Act, it is significant that, as the Commission itself has recognized, Congress expressly withheld from the Commission the authority to forbear from applying the requirements of Section 271 prior to its full implementation.<sup>6</sup> In sum, under no circumstances can a BOC provide in-region interLATA services before it fully satisfies the statutory prerequisites for interLATA relief. Despite repeated assertions as to the imminence of Section 271 approval in New York and throughout its region, Bell Atlantic has *not* qualified to provide in-region interLATA services in any state, and the Commission should not accept the possibility of future Section 271 approvals as the grounds for granting such relief on an interim basis.

Section 3(25)(B) provides the Commission with limited discretion to "modif[y]" LATA boundaries under certain circumstances so that calls which would otherwise cross LATA boundaries will be treated as intraLATA in nature. The Supreme Court has made clear that the term "modify," as it appears in the Communications Act, connotes "moderate change" and does not permit the agency to make "fundamental changes," such as eliminating a requirement. Here, Bell Atlantic and GTE are asking the Commission to eliminate the boundaries among *all* of the LATAs in Bell Atlantic territory – effectively merging them into a single LATA – so that the merged entity may maintain and enhance Internetworking's position in the data transport and related markets in the lucrative Bell Atlantic region. Such a request involves "fundamental" rather than "moderate" changes and, therefore, exceeds the Commission's authority under Section 3(25)(B).

Moreover, the Commission's own standards for modifying LATA boundaries repudiate the request. Recognizing that extensive LATA boundary modifications would unlawfully eviscerate Section 271, the Commission has authorized LATA boundary modifications only for limited purposes pursuant to a demanding evidentiary test.

Deployment of Wireline Services Offering Advanced Telecommunications Capability, CC Docket No. 98-147, Memorandum Opinion and Order and Notice of Proposed Rulemaking (rel. Aug. 7, 1998), ¶¶ 69-79 ("Advanced Services Order/NPRM").

<sup>&</sup>lt;sup>7</sup> MCI Telecommunications Corp. v. FCC, 512 U.S. 218, 225-29 (1994).

Specifically, the Commission will approve a LATA boundary modification only where the Bell Company demonstrates that the community's need for a new intraLATA route outweighs the risks of potential anticompetitive effects and does not reduce the Bell Company's incentives to open its local markets under Section 271. Under that standard, virtually all LATA boundary modifications have been to facilitate the provision of traditional local telephone service between contiguous exchanges which share a strong "community of interest." Indeed, only recently the Commission refused to permit the creation of the same sort of large-scale data LATA which Bell Atlantic and GTE are requesting here. The Requesting Parties do not even purport to satisfy the Commission's demanding public interest standard for LATA boundary modifications, and hence their request must be denied.

Further, in each instance where the Commission has modified LATA boundaries, it has made a finding that such relief did not undermine the pro-competitive provisions of the 1996 Act and otherwise is fully consistent with Section 271. The Commission has noted that where LATA boundaries are being modified solely for the purpose of providing traditional local services, like the routine waivers granted by the District Court under the Consent Decree, it is unlikely that reclassifying services as intraLATA will "reduce a BOC's motivation to open its own market to competition." Thus, the FCC, mindful of the ability of the BOCs to exploit even the slightest window of opportunity to

See, e.g., Bell Atlantic-Massachusetts, Inc. Petition for Limited Modification of LATA Boundary to Provide Expanded Local Calling Service (ELCS), Memorandum Opinion and Order, File No. NSD-L-98-114 (rel. Oct. 15, 1998), ¶¶ 6-7 ("Bell Atlantic-MA ELCS Order"); Southwestern Bell Telephone Company Petition for Limited Modification of LATA Boundaries to Provide Expanded Local Calling Service (ELCS), Memorandum Opinion and Order, File No. NSD-L-97-26 (rel. May 18, 1998), ¶11 ("SWBT ELCS Order"); Petitions for Limited Modification of LATA Boundaries to Provide Expanded Local Calling Service (ELCS) at Various Locations, 12 FCC Rcd 10646 (1997), ¶18 ("ELCS Order").

See Bell Atlantic-MA ELCS Order, ¶¶ 5,7; Ameritech Petition for Limited Modification of LATA Boundaries to Provide Expanded Local Calling Service (ELCS), Memorandum Opinion and Order, CC Docket No. 96-159 (rel. Oct. 15, 1998), ¶¶ 6,10 ("Ameritech ELCS Order II"); Ameritech Petition for Limited Modification of LATA Boundaries to Provide Expanded Local Calling Service (ELCS), Memorandum Opinion and Order, File No. NSD-L-98-87 (rel. July 16, 1998), ¶¶ 5,7 ("Ameritech ELCS Order I"); Bell Atlantic-Virginia, Inc. Petition for Limited Modification of LATA Boundaries to Provide Expanded Local Calling Service (ELCS), Memorandum Opinion and Order, File No. NSD-L-98-91 (rel. Sept. 2, 1998), ¶¶ 5,7 ("Bell Atlantic-VA ELCS Order").

<sup>&</sup>lt;sup>10</sup> See Advanced Services Order/NPRM, ¶¶ 190-96.

ELCS Order, ¶ 14.

make inroads into the in-region interLATA market, will not permit a LATA boundary modification which would "lead to substantial expansion of BOC service, without the BOC satisfying the Section 271 requirements." Accordingly, contrary to the Requesting Parties' assertion, the Commission's authority to approve the modification of LATA boundaries is entirely related to any forbearance authority it does and does *not* have under other provisions of the Act. The FCC should apply those policies in this case by rejecting the Requesting Parties' effort to enter the in-region interLATA market prior to Bell Atlantic's satisfaction of Section 271.

It should be noted that the Commission's approach to LATA boundary requests under Section 3(25) is consistent with the approach taken by the U.S. District Court for the District of Columbia Circuit in dealing with LATA boundary exceptions and waivers under the AT&T Consent Decree. The instant request is similar to the request by U S West for a waiver of the decree to provide common channel signaling on an interLATA basis over a separate data network. The District Court rejected that request in order to prevent the Bell Companies from undermining long distance competition through discrimination and cross-subsidy. In this case, GTE's backbone Internet network plainly qualifies as "interLATA service" under the 1996 Act, and it would undermine the purposes of Section 271 to permit Bell Atlantic to operate that network prior to obtaining Section 271 relief. Indeed, if the Commission grants such a waiver here, it can expect all the BOCs to seek similar authority to establish in-region Internet backbone networks whether or not they can link it to a pending merger. The Commission should follow Judge Greene's insightful reasoning in that case and not here permit a data network exception to the in-region interLATA prohibition.

## 3. Bell Atlantic and GTE Have Not Demonstrated a Community's Need Sufficient to Justify the Requested Relief.

Bell Atlantic and GTE claim that in order for the "public interest benefits" of their merger to materialize, the merged entity must be able to operate Internetworking's existing Internet backbone and related businesses without interruption. Indeed, they assert, any disruption in Internetworking's operations would result in "serious competitive injury" to the nationwide market for Internet backbone service. In order to prevent any such alleged disruption, they have requested that the FCC create one large LATA encompassing all the states in Bell Atlantic's region. In sum, Bell Atlantic and GTE have requested that the FCC approve the creation of a massive new LATA for the

ELCS Order, ¶ 21.

<sup>&</sup>lt;sup>13</sup> See United States v. Western Elec. Co., Inc., 131 F.R.D. 647 (D.D.C. 1990).

<sup>&</sup>lt;sup>14</sup> See id. at 650-52.

sole purpose of "preserv[ing] and strengthen[ing] the existing business of GTE Internetworking." However, preserving and strengthening a carrier's business cannot justify extraordinary LATA boundary relief. The Commission should not permit the parties to use their proposed merger as a pretext for obtaining LATA boundary relief for which Bell Atlantic would not otherwise qualify. No one is forcing Bell Atlantic and GTE to merge their monopolies into a single business. As such, they should be required to comply with all applicable laws and rules before the Commission even considers whether to approve the merger. Whether or not GTE Internetworking will fall from the "top tier" of the Internet backbone providers is not relevant to a LATA boundary modification request.

Moreover, the Requesting Parties' reliance on Section 706 and their assertions that the Commission necessarily approves of LATA boundary modifications for the purpose of promoting the deployment and growth of advanced services is not persuasive, and certainly cannot remedy their failure to make even an effort to satisfy the demanding test for LATA boundary relief. As noted, virtually all of the LATA boundary modification requests granted by the FCC have been to create extended local calling areas for the provision of traditional local services. The Requesting Parties rely on only one proceeding in which the Commission approved a LATA modification for the provision of an advanced service as supporting their request for relief here. Further, that decision actually supports the contention that the Commission should reject the instant request for a LATA boundary modification.

In the SWBT Modification Order<sup>16</sup> the Commission granted a request by Southwestern Bell Telephone Company ("SWBT") for a limited modification of LATA boundaries for the specific purpose of providing ISDN service in Hearne, Texas. In granting SWBT's request, the Commission found that SWBT had successfully demonstrated the community's need for the modification and that there would be little, if any, competitive impact. The Commission found that SWBT's petition was motivated primarily by a requirement of the Texas Public Utility Commission ("PUC") that SWBT make ISDN available to all of its customers in Texas.<sup>17</sup> The FCC further granted SWBT's request because: (1) only one community with a small number of customers and an even smaller number of access lines would be affected; (2) it would be uneconomical for SWBT to modify the facilities in Hearne to provide ISDN service

Report at 10.

Southwestern Bell Tel. Co. Petition for Limited Modification of LATA Boundaries to Provide Integrated Services Digital Network (ISDN) at Hearne, Texas, Memorandum Opinion and Order, File No. NSD-LM-97-26 (rel. May 18, 1998) ("SWBT Modification Order").

<sup>&</sup>lt;sup>17</sup> See id., ¶ 8.

because the cost of replacing the switch would be \$2,166,000 -- an amount the Commission described as "exorbitant" under the circumstances; and (3) the other available intraLATA alternatives -- incorporating the Hearne LATA into the Austin LATA (where the ISDN-compatible switch was located) and opening a new NXX code -- were equally impractical. Finally, the Commission emphasized that the PUC advised that for small communities -- such as Hearne -- a link connecting a customer to a switch in another exchange would be a preferred method of compliance with the ISDN requirement. Thus, although the service involved in the SWBT Modification Order was ISDN (an "advanced service"), in that case SWBT successfully articulated many factors which overwhelmingly supported a positive public interest finding by the Commission. The circumstances surrounding Bell Atlantic and GTE's request, by contrast, do not include any of these factors, much less all of them -- a demonstrable community of interest, a small number of customers and access lines that would be affected, the absence of available reasonable alternative methods of relief, a Commission-mandated service requirement, and a pre-approved Commission remedy.

Thus, contrary to the Requesting Parties' interpretation of Commission precedent, the FCC has not yet determined that LATA boundary modifications for the purpose of the provision of advanced services are *necessarily* desirable -- certainly not without satisfying the agency's demanding standard for such extraordinary relief. It is well established, however, that modification of LATA boundaries to facilitate the provision of *traditional local service* may, under certain circumstances, serve the public interest. Indeed, CompTel notes that the Commission is still considering the issue of whether it is either permissible or wise to grant LATA boundary modifications to encourage the deployment of advanced services. It is the FCC's well-established practice not to grant relief while the same or a similar issue is pending before the agency in a rulemaking proceeding. Accordingly, Commission action with regard to the Requesting Parties' request for LATA relief at this time would be premature.

<sup>&</sup>lt;sup>18</sup> *Id.*, ¶ 13.

See Bell Atlantic-MA ELCS Order, ¶¶ 5,7; Ameritech ELCS Order II ¶¶ 6,10; Ameritech ELCS Order I, ¶¶ 5,7; Bell Atlantic-VA ELCS Order, ¶¶ 5,7.

See Advanced Services Order/NPRM, ¶¶ 190-96.

See, e.g., Time Warner Inc. Petition for Special Relief Requesting Waiver of 47 C.F.R. § 76.501, 12 FCC Rcd 15300, ¶ 17 (1997) (it is "premature to grant a conditional waiver pending the outcome of a rulemaking").

## 4. The Potential Anticompetitive Effects of the Requested Relief Clearly Outweigh the "Need" for the Relief and Any Anticipated Benefits.

Bell Atlantic and GTE argue that any potential anticompetitive effects of the proposed modification would be minimal, because: (1) the modification is "limited" to Internetworking's existing Internet backbone and related businesses; (2) the relief would take effect once Bell Atlantic obtains long distance authority covering at least one-quarter of its lines within its region; (3) the relief would last only for two years after the merger is closed; and (4) Internetworking would operate as a Section 272 "separate affiliate." None of these so-called "limitations," singularly or combined, can minimize or even disguise the enormous loophole that would be created by the Commission in Section 271 if it granted the requested relief.

First, the Requesting Parties' attempt to distinguish traditional long distance services from the Internet backbone services at issue here is particularly misguided given the extent to which carriers today route even the most basic voice traffic on a packet-switched data basis. It is impossible to draw any bright-line distinction between the transmission of data and so-called "traditional" voice services, and there would be no feasible way for the Commission to prevent GTE/Bell Atlantic from routing voice traffic on an interLATA basis under the requested relief. Indeed, GTE/Bell Atlantic would have every incentive to convert circuit-switched voice traffic into IP telephony which could be transported over its new multi-state "intraLATA" routes, thereby effectively completely eviscerating the requirements of Section 271.

Second, the timing of the relief period -- when it starts and when it tolls -- is irrelevant to the potential competitive harm that would be created by grant of the request. Effectively, Bell Atlantic is requesting that the Commission permit it to provide in-region interLATA services in every state in which it now operates -- covering all of its lines -- so long as Bell Atlantic has received Section 271 authority covering only one-fourth of those lines. In effect, Bell Atlantic would be modifying the Section 271 requirements for obtaining in-region relief. The purpose of Section 271 is to apply to entry into the long distance markets on a state-by-state basis, and the Commission cannot and should not overturn that legislative judgment. Moreover, Bell Atlantic already has flagrantly disregarded the market-opening mandates of the 1996 Act for three years, keeping competitors from entering its local markets and perpetuating its monopoly status; the Commission should not allow Bell Atlantic to continue flouting its statutory obligations for another two years. In this regard, CompTel would note that it would appear that Bell Atlantic and GTE already anticipate, in the event that the Commission approves this

Request, requesting the agency to extend the two-year period<sup>23</sup> -- thereby belying their claim that they intend this relief to be temporally limited.

Third, the vast scope of the relief Bell Atlantic and GTE have requested will remove all incentives Bell Atlantic has to open its local markets under Section 271: creating the large-scale data LATA requested would lead to substantial expansion of Bell Atlantic's service, without Bell Atlantic satisfying the Section 271 requirements.<sup>24</sup> In this context, the Requesting Parties' attempt to rely on their Section 271 progress in New York as proof of Bell Atlantic's sincerity and motivation to open its local markets, and of the speed with which Bell Atlantic allegedly will obtain Section 271 relief in its other states, is particularly unpersuasive. It is premature to conclude that Bell Atlantic has satisfied Section 271 in New York before it has even filed an application with the FCC, and before the FCC has finalized its network element rules on remand from the Supreme Court in AT&T Corp. v. Iowa Utilities Board.<sup>25</sup> Further, the status of Bell Atlantic's Section 271 aspirations in New York have no bearing whatsoever on the questions of when or whether it will receive such authority for the other states in its region. In this regard, CompTel would note that Bell Atlantic has hardly begun Section 271 proceedings in in-region states other than New York. More significantly, Bell Atlantic has refused to accept the same conditions in other states that it apparently may be willing to accept for New York. The Commission should not reward Bell Atlantic's continuing unwillingness to comply with its statutory obligations with LATA relief which would erode the only incentives Bell Atlantic has to comply with those obligations: if Bell Atlantic wants to operate Internetworking on an interLATA basis in its region, it should first qualify under Section 271 to provide such services.

Fourth, Bell Atlantic's promise to utilize a Section 272 affiliate cannot justify the relief it seeks. Congress wrote Section 272 to apply only after a Bell Company satisfies the market-opening requirements of Section 271. It was not designed to, and will not, control a Bell Company's abuse of market power while it still retains its local exchange monopoly within a state.

Report at 10 ("Moreover, [the relief] would be temporary, limited to a period of two years following closing of the merger (unless extended by the Commission). . .").

See ELCS Order ¶ 21.

<sup>&</sup>lt;sup>25</sup> AT&T Corp. v. Iowa Utilities Board, 119 S. Ct. 721 (1999).

In sum, Bell Atlantic and GTE have failed to establish either a legal or a factual basis on which the Commission could justify grant of the extraordinary LATA relief requested herein in derogation of the procompetitive mandates of Section 271. Accordingly, for the foregoing reasons, Bell Atlantic and GTE's request for LATA relief should be denied.

An original and one copy of this letter are being submitted in accordance with Section 1.1206 of the Commission's rules.

Respectfully submitted,

Carol Ann Bischoff

Executive Vice President

Corol Rambischoff

and General Counsel

COMPETITIVE TELECOMMUNICATIONS

ASSOCIATION

cc: Thomas Krattenmaker

Janice Myles

Jeanine Poltronieri

To-Quyen Truong

Steve Weingarten

Michael Kende

**Thomas Power** 

Linda Kinney

Kevin Martin

Kyle Dixon

Paul Gallant

**ITS**